

**CITY OF CRYSTAL FALLS**  
**AUDITED FINANCIAL STATEMENTS**  
**CRYSTAL FALLS, MICHIGAN**

Fiscal Year Ended September 30, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Crystal Falls</b>		County <b>Iron</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>12/3/04</b>	Date Accountant Report Submitted to State: <b>1/13/05</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including annexes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<b>X</b>		
Reports on individual federal financial assistance programs (program audits).			<b>X</b>
Single Audit Reports (ASLGU).			<b>X</b>

Certified Public Accountant (Firm Name) <b>Scott R. Kenney, CPA</b>			
Street Address <b>1374 Commercial Avenue Ste. 1</b>		City <b>Crystal Falls</b>	State <b>MI</b>
Accountant Signature <i>Scott R. Kenney, CPA</i>		ZIP <b>49920</b>	Date <b>1-13-05</b>

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*Certified Public Accountant*

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Crystal Falls  
Crystal Falls, Michigan 49920

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Crystal Falls, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crystal Falls, Michigan, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of September 30, 2004.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member  
American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Crystal Falls, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
Certified Public Accountant

December 3, 2004

CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2004

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets decreased 1.8% from a year ago - decreasing from \$6.783 million to \$6.659 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$25 thousand during the year (2.5% increase). This is attributed to the curtailment of capital spending, larger transfers than in prior years from the various utility funds and increased scrutiny of budgeted amounts. The business-type activities experienced a \$149 thousand decrease in net assets, primarily as a result of increased transfers to the general fund which more than offset the increase in charges in the various funds. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current Assets	\$ 742	\$ 488	\$ 616	\$ 924	\$ 1,358	\$ 1,412
Noncurrent Assets	<u>512</u>	<u>680</u>	<u>9,513</u>	<u>8,447</u>	<u>10,025</u>	<u>9,127</u>
Total Assets	\$ 1,254	\$ 1,168	\$ 10,129	\$ 9,371	\$ 11,383	\$ 10,539
Long-Term Debt Outstanding	\$ 119	\$ 74	\$ 4,370	\$ 3,486	\$ 4,489	\$ 3,560
Other Liabilities	<u>101</u>	<u>85</u>	<u>133</u>	<u>111</u>	<u>234</u>	<u>196</u>
Total Liabilities	\$ <u>220</u>	\$ <u>159</u>	\$ <u>4,503</u>	\$ <u>3,597</u>	\$ <u>4,723</u>	\$ <u>3,756</u>
Net Assets						
Invested in Capital Assets-Net of Debt	\$ 482	\$ 575	\$ 4,737	\$ 4,960	\$ 5,219	\$ 5,535
Restricted	45	105	950	172	995	277
Unrestricted	<u>507</u>	<u>329</u>	<u>(61)</u>	<u>642</u>	<u>446</u>	<u>971</u>
Total Net Assets	\$ 1,034	\$ 1,009	\$ 5,626	\$ 5,774	\$ 6,660	\$ 6,783

CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2004

Unrestricted net asset—the part of net assets that can be used to finance day to day operations, increased by \$178,000 for the governmental activities. This increase can be attributed primarily to the aforementioned transfers from the utility funds and the release of the collateral on the Industrial Park Loan. The current level of unrestricted net assets for our governmental activities stands at \$507,000.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program Revenues						
Charges for Services	\$ 24		\$ 2,422		\$ 2,446	
Operating Grants and Contributions	0		0		0	
Capital Grants and Contributions	0		0		0	
General Revenues						
Property Taxes	\$ 290		\$ 0		\$ 290	
State-Shared Revenues	518	N	0	N	518	N
Unrestricted Investment Earnings	37	O	19	O	56	O
Fines and forfeitures	6	T	0	T	6	T
Other	159		0		159	
Transfers	<u>595</u>		<u>(595)</u>		<u>0</u>	
Total Revenues	\$ 1,629		\$ 1,846		\$ 3,475	
Program Expenses						
Legislative	\$ 14	A	\$ 0	A	\$ 14	A
General Government	560	V	0	V	560	V
Public Safety	380	A	0	A	380	A
Public Works	470	I	0	I	470	I
Recreation & Culture	147	L	0	L	147	L
Community betterment	33	A	0	A	33	A
Public Utilities	<u>0</u>	B	<u>0</u>	B	<u>33</u>	B
		L	<u>1,995</u>	L	<u>1,995</u>	L
		E		E		E
Total Expenses	<u>\$ 1,604</u>		<u>\$ 1,995</u>		<u>\$ 3,599</u>	
Change in Net Assets	\$ 25		\$ (149)		\$ (124)	

The City's net assets remain at a mediocre level. This can be attributed to conservative yet necessary planning and spending on past capital equipment and projects and implementation of cost savings measures. Housing construction within the City remained at a slow pace this past year.



CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2004

Governmental Activities

The City's total governmental revenues decreased by approximately \$5,000 due to a decrease in State Shared Revenues and a federal grant associated with culvert/road work that was received during the 2002-2003 year.

Cash expenditures increased by slightly more than \$65,000 during the year. This was due to increased costs associated with attorney fees from a lawsuit (now settled) with a group of retirees, increased insurance costs and increased benefit costs.

Business-Type Activities

The City's business-type activities consist of the Television, Electric, Water and Sewer Funds. The City provides cable television and internet services to residents through its cable television system. The City also provides electric service to residents by generating hydroelectric power at its own facilities and supplements its customers needs with power purchased from WE Energies. The City provides water and sewer services to residents, which come from the City's own systems. The Television Fund saw its revenues increase due to a rate increase associated with rising costs for affiliation with a national television consortium. The Electric Fund saw its revenues increase due to a rate increase and expenditures rise due to increasing costs to purchase power in excess of the power generated. In addition, the City has undertaken a project to automate the power plant operations. This is expected to pay for itself in approximately five years. The Water Fund revenues decreased slightly due to the receipt of a federal grant in 2002-2003 year and expenses rose due to costs incurred to seek a new water source for the City's system. The Sewer Fund revenues decreased slightly as did expenses during the year because of federal grant revenues and expenditures received and incurred during the 2002-2003 year.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a federal grant/loan. The City's major funds for 2003-2004 include the General Fund, Major Street Fund, Industrial Park Fund, Electric Reserve and Contingency Fund and each of the business type funds.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2004

General Fund Budgetary Highlights

Over the course of the year, the City Board amended the budget to take into account events during the year. The most significant revenue changes were in transfers from other funds which was decreased by \$68,000 due to a smaller amount actually being transferred. The City Council adopted a modification to the budget that matches amounts expended where the budgeted amount was not adequate to cover the actual expenditures.

Capital Asset and Debt Administration

At the end of 2004, the City had nearly \$9,000,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, land and buildings, community television system, electric system, water and sewer systems. In addition, the City has invested significantly in roads and sidewalks within the City which are not included in the total. These roads are maintained by the City with the costs recorded in the major and local street funds.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2004-2005 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A and a insecure cash position, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

Business Type Funds will continue to be scrutinized carefully to be certain that rates and/or fees for services are proportionate to the related expenses.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

CITY OF CRYSTAL FALLS  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
September 30, 2004

ASSETS	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>CURRENT ASSETS</b>			
Cash and equivalents	\$ 567,360	\$ 396,293	\$ 963,653
Receivables - net	129,774	219,787	349,561
Prepaid expenses	45,354	0	45,354
Other	0	0	0
Internal balances	0	0	0
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 742,488</b>	<b>\$ 616,080</b>	<b>\$ 1,358,568</b>
<b>RESTRICTED ASSETS - Cash and equivalents</b>	<b>\$ 0</b>	<b>\$ 962,876</b>	<b>\$ 962,876</b>
<b>NON-CURRENT ASSETS</b>			
Property and equipment, net of depreciation	\$ 511,502	\$ 8,429,685	\$ 8,941,187
Other	0	120,184	120,184
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$ 511,502</b>	<b>\$ 8,549,869</b>	<b>\$ 9,061,371</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,253,990</b>	<b>\$ 10,128,825</b>	<b>\$ 11,382,815</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 79,852	\$ 27,512	\$ 107,364
Accrued and other liabilities	21,247	60,479	81,726
Interprogram payables	0	0	0
Current part of non-current liabilities	0	45,000	45,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 101,099</b>	<b>\$ 132,991</b>	<b>\$ 234,090</b>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<b>\$ 0</b>	<b>\$ 236,038</b>	<b>\$ 236,038</b>
<b>NON-CURRENT LIABILITIES</b>			
Compensated absences	\$ 29,712	\$ 0	\$ 29,712
Revenue bonds payable	0	4,134,395	4,134,395
Unfunded accrued actuarial pension liability	89,113	0	89,113
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>\$ 118,825</b>	<b>\$ 4,134,395</b>	<b>\$ 4,253,220</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 219,924</b>	<b>\$ 4,503,424</b>	<b>\$ 4,723,348</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 481,790	\$ 4,736,668	\$ 5,218,458
Restricted for			
Prepaid expenses	45,354	0	45,354
Bond discount	0	9,500	9,500
Debt service	0	213,605	213,605
Future construction	0	654,983	654,983
Repair and reconstruction	0	71,794	71,794
Unrestricted	506,922	(61,149)	445,773
<b>TOTAL NET ASSETS</b>	<b>\$ 1,034,066</b>	<b>\$ 5,625,401</b>	<b>\$ 6,659,467</b>

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
Year ended September 30, 2004

FUNCTIONS/PROGRAMS	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTION</u>
Governmental Activities				
Legislative	\$ 13,719	\$ 0	\$ 0	\$ 0
General government	559,953	23,856	0	0
Public safety	379,930	0	0	0
Public works	470,422	0	0	309
Parks and recreation	147,826	0	0	0
Community betterment	32,960	0	0	0
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 1,604,810</b>	<b>\$ 23,856</b>	<b>\$ 0</b>	<b>\$ 309</b>
Business-Type Activities				
Television	\$ 175,216	\$ 184,281	\$ 0	\$ 0
Electric	1,274,253	1,565,167		
Water	199,545	328,247		
Sewer	346,291	343,850	0	0
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 1,995,305</b>	<b>\$ 2,421,545</b>	<b>\$ 0</b>	<b>\$ 0</b>

GENERAL REVENUES

Property taxes  
State shared revenues and grants  
Unrestricted investments earnings  
Fines and forfeitures  
Other

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET ASSETS

Net assets - beginning

NET ASSETS - ENDING

The Notes to Financial Statements are an integral part of this statement.

NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
\$ (13,719)		\$ (13,719)
(536,097)		
(379,930)		(379,930)
(470,113)		(470,113)
(147,826)		(147,826)
(32,960)		(32,960)
\$ (1,580,645)		\$ (1,044,548)
	\$ 9,065	\$ 9,065
	290,914	290,914
	128,702	128,702
	(2,441)	(2,441)
	\$ 426,240	\$ 426,240
\$ 290,390	\$ 0	\$ 290,390
518,143	0	518,143
37,399	19,849	57,248
5,964	0	5,964
158,535	0	158,535
594,988	(594,988)	0
\$ 1,605,419	\$ (575,139)	\$ 1,030,280
\$ 24,774	\$ (148,899)	\$ (124,125)
1,009,291	5,774,300	6,783,591
\$ 1,034,066	\$ 5,625,401	\$ 6,659,467

CITY OF CRYSTAL FALLS  
GOVERNMENTAL FUNDS BALANCE SHEET  
COMBINED BALANCE SHEET  
September 30, 2004

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>INDUSTRIAL PARK</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 151,693	\$ 70,994	\$ 107,137
Investments	0	0	0
Accounts receivable	1,204	0	0
Due from other funds	0	0	0
Due from other governmental units	94,577	24,814	0
Prepaid expenses	45,354	0	0
Bond discount	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>292,828</u></b>	<b>\$ <u>95,808</u></b>	<b>\$ <u>107,137</u></b>
<b>LIABILITIES</b>			
Accounts payable	\$ 61,717	\$ 17,062	\$ 0
Accrued payroll expense	10,175	0	0
Accrued taxes and withholdings	0	0	0
Accrued benefits	0	0	0
Accrued interest	0	0	0
Other liabilities	<u>11,072</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 82,964</b>	<b>\$ 17,062</b>	<b>\$ 0</b>
<b>FUND BALANCES</b>			
Reserved for			
Prepaid expenses	\$ 45,354	\$ 0	\$ 0
Bond discount	0	0	0
Unreserved	<u>164,510</u>	<u>78,746</u>	<u>107,137</u>
<b>TOTAL FUND EQUITY</b>	<b>\$ <u>209,864</u></b>	<b>\$ <u>78,746</u></b>	<b>\$ <u>107,137</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>292,828</u></b>	<b>\$ <u>95,808</u></b>	<b>\$ <u>107,137</u></b>

The Notes to Financial Statements are an integral part of this statement.

<u>ELECTRIC RESERVE &amp; CONTINGENCY</u>	<u>NON-MAJOR GOVERNMENTAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
\$ 228,458	\$ 9,078	\$ 567,360
0	0	0
0	0	1,204
0	0	0
0	9,179	128,570
0	0	45,354
<u>0</u>	<u>0</u>	<u>0</u>
\$ <u>228,458</u>	\$ <u>18,257</u>	\$ <u>742,488</u>
 \$ 0	 \$ 1,073	 \$ 79,852
0	0	10,175
0	0	0
0	0	0
0	0	0
<u>0</u>	<u>0</u>	<u>11,072</u>
\$ 0	\$ 1,073	\$ 101,099
 \$ 0	 \$ 0	 \$ 45,354
0	0	0
<u>228,458</u>	<u>17,184</u>	<u>596,035</u>
\$ <u>228,458</u>	\$ <u>17,184</u>	\$ <u>641,389</u>
\$ <u>228,458</u>	\$ <u>18,257</u>	\$ <u>742,488</u>

CITY OF CRYSTAL FALLS  
RECONCILIATION OF BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
September 30, 2004

Total fund balance - total governmental funds	\$ 641,389
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	511,502
Long term liabilities:	
Accumulated employee vacation pay not used in current period	(29,712)
Unfunded accrued actuarial pension liability not payable in the current period	<u>(89,113)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>1,034,066</u></u>



CITY OF CRYSTAL FALLS  
 ALL GOVERNMENTAL FUND TYPES  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 Year ended September 30, 2004

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>INDUSTRIAL PARK</u>
REVENUES			
General property taxes	\$ 290,390	\$ 0	\$ 0
Federal grants	0	309	0
State shared revenues and grants	250,518	206,827	0
Charges for services	23,856	0	0
Licenses and permits	0	0	0
Fines and forfeitures	5,964	0	0
Interest and rentals	134,449	0	2,047
Other	<u>149,087</u>	<u>9,448</u>	<u>0</u>
TOTAL REVENUES	\$ 854,264	\$ 216,584	\$ 2,047
EXPENDITURES			
Legislative	\$ 13,719	\$ 0	\$ 0
General government	489,548	6,275	55
Public safety	373,015	0	0
Public works	277,680	169,603	825
Parks and recreation	138,216	0	0
Community betterment	32,960	0	0
Debt service	0	0	0
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	\$ <u>1,325,138</u>	\$ <u>175,878</u>	\$ <u>880</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (470,874)	\$ 40,706	\$ 1,167
OTHER FINANCING SOURCES (USES)			
Transfer from other funds	\$ 565,000	\$ 0	\$ 0
Transfer to other funds	<u>(2,897)</u>	<u>(30,900)</u>	<u>0</u>
EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	\$ 91,229	\$ 9,806	\$ 1,167
Fund balance - beginning	<u>118,635</u>	<u>68,940</u>	<u>105,970</u>
FUND BALANCE - ENDING	<u>\$ 209,864</u>	<u>\$ 78,746</u>	<u>\$ 107,137</u>

Notes to Financial Statements are an integral part of this statement.

<u>ELECTRIC RESERVE &amp; CONTINGENCY</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
\$ 0	\$ 0	\$ 290,390
0	0	309
0	60,798	518,143
0	0	23,856
0	0	0
0	0	5,964
2,428	0	138,924
<u>0</u>	<u>0</u>	<u>158,535</u>
\$ 2,428	\$ 60,798	\$ 1,136,121
\$ 0	\$ 0	\$ 13,719
0	5,922	501,800
0	0	373,015
0	87,509	535,617
0	0	138,216
0	0	32,960
0	0	0
<u>0</u>	<u>2,897</u>	<u>2,897</u>
\$ <u>0</u>	\$ <u>96,328</u>	\$ <u>1,598,224</u>
\$ 2,428	\$ (35,530)	\$ (462,103)
\$ 29,988	\$ 33,797	\$ 628,785
<u>0</u>	<u>0</u>	<u>(33,797)</u>
\$ 32,416	\$ (1,733)	\$ 132,885
<u>196,042</u>	<u>18,917</u>	<u>508,504</u>
\$ <u><u>228,458</u></u>	\$ <u><u>17,184</u></u>	\$ <u><u>641,389</u></u>

CITY OF CRYSTAL FALLS  
RECONCILIATION OF STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
Year ended September 30, 2004

Net change in fund balance - total governmental funds	\$ 132,885
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation	(63,835)
Increases in accumulated employee vacation are recorded when earned in the Statement of Activities	(2,116)
Rental of equipment recorded as income and expenditures in the various governmental funds and eliminated in the Statement of Activities	0
Increase in unfunded accrued actuarial pension liability not requiring the use of current financial resources	(42,160)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u>24,774</u>

**CITY OF CRYSTAL FALLS**  
**STATEMENT OF NET ASSETS**  
**BUSINESS TYPE FUNDS**  
September 30, 2004

	TELEVISION UTILITY	ELECTRIC UTILITY	WATER UTILITY	SEWER UTILITY	TOTAL
<b>ASSETS</b>					
Current Assets:					
Cash and equivalents	\$ 12,046	\$ 117,860	\$ 134,690	\$ 131,697	\$ 396,293
Accounts receivable	0	214,218	0	5,569	219,787
Due from other governmental units	0	0	0	0	0
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 12,046</b>	<b>\$ 332,078</b>	<b>\$ 134,690</b>	<b>\$ 137,266</b>	<b>\$ 616,080</b>
Restricted Assets	\$ 0	\$ 759,587	\$ 0	\$ 203,289	\$ 962,876
Property, Plant and Equipment:					
Utility plant and equipment	\$ 142,328	\$ 1,093,736	\$ 262,616	\$ 8,587,382	\$ 10,086,062
Less accumulated depreciation	(60,906)	(295,821)	(168,884)	(1,130,766)	(1,656,377)
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>\$ 81,422</b>	<b>\$ 797,915</b>	<b>\$ 93,732</b>	<b>\$ 7,456,616</b>	<b>\$ 8,429,685</b>
Other Assets:					
Bond Discount	\$ 0	\$ 9,500	\$ 0	\$ 0	\$ 9,500
Investments	0	110,684	0	0	110,684
<b>TOTAL OTHER ASSETS</b>	<b>\$ 0</b>	<b>\$ 120,184</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 120,184</b>
<b>TOTAL ASSETS</b>	<b>\$ 93,468</b>	<b>\$ 2,009,764</b>	<b>\$ 228,422</b>	<b>\$ 7,797,171</b>	<b>\$ 10,128,825</b>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable	\$ 11,830	\$ 6,755	\$ 4,908	\$ 4,019	\$ 27,512
Salaries and wages payable	288	21,698	776	1,762	24,524
Accrued benefits payable	0	15,739	0	0	15,739
Sales tax payable	0	3,894	0	0	3,894
Interest payable	0	3,411	0	12,911	16,322
Customer deposits	0	22,433	0	0	22,433
Current portion of long term debt	0	0	0	45,000	45,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 12,118</b>	<b>\$ 73,930</b>	<b>\$ 5,684</b>	<b>\$ 63,692</b>	<b>\$ 155,424</b>
Long Term Liabilities	\$ 0	\$ 950,000	\$ 0	\$ 3,398,000	\$ 4,348,000
<b>TOTAL LIABILITIES</b>	<b>\$ 12,118</b>	<b>\$ 1,023,930</b>	<b>\$ 5,684</b>	<b>\$ 3,461,692</b>	<b>\$ 4,503,424</b>
<b>NET ASSETS</b>					
Invested in capital assets - net of related debt	\$ 81,422	\$ 502,898	\$ 93,732	\$ 4,058,616	\$ 4,736,668
Restricted for bond discount	0	0	0	9,500	9,500
Restricted for debt service	0	82,110	0	131,495	213,605
Restricted for future construction and improvements	0	654,983	0	71,794	726,777
Unrestricted	(72)	(254,157)	129,006	64,074	(61,149)
<b>TOTAL NET ASSETS</b>	<b>\$ 81,350</b>	<b>\$ 985,834</b>	<b>\$ 222,738</b>	<b>\$ 4,335,479</b>	<b>\$ 5,625,401</b>

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
BUSINESS TYPE FUNDS  
Year ended September 30, 2004

	<u>TELEVISION UTILITY</u>	<u>ELECTRIC UTILITY</u>	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
<b>OPERATING REVENUES</b>					
Federal grants	\$ 0	\$ 0	\$ 360	\$ 0	\$ 360
User charges	182,335	1,561,424	327,287	343,688	2,414,734
Other	<u>1,946</u>	<u>3,743</u>	<u>600</u>	<u>162</u>	<u>6,451</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 184,281</b>	<b>\$ 1,565,167</b>	<b>\$ 328,247</b>	<b>\$ 343,850</b>	<b>\$ 2,421,545</b>
<b>OPERATING EXPENSES</b>					
General and administrative					
Salaries and wages	\$ 288	\$ 19,359	\$ 4,099	\$ 19,490	\$ 43,236
Employee benefits	22	1,430	298	9,883	11,633
Contracted services	0	1,408	880	880	3,168
Transmission, distribution and maintenance					
Salaries and wages	15,780	152,169	44,587	30,650	243,186
Employee benefits	6,925	70,418	21,996	15,523	114,862
Supplies	722	61,976	34,601	3,986	101,285
Contracted services	140,209	591,170	85,767	11,773	828,919
Other	3,528	14,710	4,982	8,488	31,708
Power plant					
Salaries and wages	0	203,780	0	0	203,780
Employee benefits	0	106,116	0	0	106,116
Supplies	0	9,997	0	0	9,997
Contracted services	0	6,676	0	0	6,676
Other	0	809	0	0	809
Depreciation	7,742	32,302	2,335	88,909	131,288
Interest	<u>0</u>	<u>1,933</u>	<u>0</u>	<u>156,709</u>	<u>158,642</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 175,216</b>	<b>\$ 1,274,253</b>	<b>\$ 199,545</b>	<b>\$ 346,291</b>	<b>\$ 1,995,305</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 9,065</b>	<b>\$ 290,914</b>	<b>\$ 128,702</b>	<b>\$ (2,441)</b>	<b>\$ 426,240</b>
<b>NON-OPERATING INCOME (EXPENSE)</b>					
Interest	\$ 0	\$ 8,961	\$ 5,155	\$ 5,731	\$ 19,847
<b>NON-OPERATING TRANSFERS</b>					
To other funds	\$ <u>0</u>	\$ <u>(244,986)</u>	\$ <u>(350,000)</u>	\$ <u>0</u>	\$ <u>(594,986)</u>
<b>NET INCOME (LOSS)</b>	<b>\$ 9,065</b>	<b>\$ 54,889</b>	<b>\$ (216,143)</b>	<b>\$ 3,290</b>	<b>\$ (148,899)</b>
Net assets - beginning	<u>72,285</u>	<u>930,945</u>	<u>438,881</u>	<u>4,332,189</u>	<u>5,774,300</u>
<b>NET ASSETS - ENDING</b>	<b>\$ <u>81,350</u></b>	<b>\$ <u>985,834</u></b>	<b>\$ <u>222,738</u></b>	<b>\$ <u>4,335,479</u></b>	<b>\$ <u>5,625,401</u></b>

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
STATEMENT OF CASH FLOWS  
BUSINESS TYPE FUNDS  
Year ended September 30, 2004

	TELEVISION UTILITY	ELECTRIC UTILITY	WATER UTILITY	SEWER UTILITY	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 182,335	\$ 1,585,447	\$ 337,298	\$ 344,993	\$ 2,450,073
Insurance proceeds	0	0	0	0	0
Payments to suppliers	(140,948)	(682,393)	(123,867)	(180,206)	(1,127,414)
Payments to or on behalf of employees	(23,285)	(551,331)	(72,512)	(76,374)	(723,502)
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	\$ 18,102	\$ 351,723	\$ 140,919	\$ 88,413	\$ 599,157
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Transfer from (to) other funds	0	(244,986)	(350,000)	0	(594,986)
Loans from (repaid to) other funds	0	0	0	(15,000)	(15,000)
<b>TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	\$ 0	\$ (244,986)	\$ (350,000)	\$ (15,000)	\$ (609,986)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Principal paid on capital debt	\$ 0	\$ 0	\$ 0	\$ (43,000)	\$ (43,000)
Federal grant proceeds	0	0	0	49,473	49,473
Loan proceeds	0	940,500	0	0	940,500
Purchases of capital assets	(15,505)	(310,464)	0	(75,923)	(401,892)
Funding of restricted accounts	0	(737,155)	0	(31,446)	(768,601)
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	\$ (15,505)	\$ (107,119)	\$ 0	\$ (100,896)	\$ (223,520)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest earned	\$ 0	\$ 8,961	\$ 5,155	\$ 5,731	\$ 19,847
Investments purchased	0	(110,684)	0	0	(110,684)
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	\$ 0	\$ (101,723)	\$ 5,155	\$ 5,731	\$ (90,837)
<b>NET INCREASE (DECREASE) IN CASH</b>	\$ 2,597	\$ (102,105)	\$ (203,926)	\$ (21,752)	\$ (325,186)
Cash and equivalents - beginning	9,449	219,965	338,616	153,449	721,479
<b>CASH AND EQUIVALENTS - ENDING</b>	\$ 12,046	\$ 117,860	\$ 134,690	\$ 131,697	\$ 396,293
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 9,065	\$ 290,914	\$ 128,702	\$ (2,441)	\$ 426,240
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation	7,742	32,302	2,335	88,909	131,288
Change in Assets and Liabilities					
Receivables - net	0	20,280	9,051	1,143	30,474
Accounts payable	1,565	2,889	2,363	1,792	8,609
Accrued salaries and wages	(270)	3,363	(1,532)	(828)	733
Accrued benefits	0	(1,422)	0	0	(1,422)
Accrued sales tax	0	(14)	0	0	(14)
Due to other funds	0	0	0	0	0
Accrued interest	0	3,411	0	(162)	3,249
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 18,102	\$ 351,723	\$ 140,919	\$ 88,413	\$ 599,157

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
September 30, 2004

	<u>PERPETUAL CEMETERY CARE</u>	<u>TAX COLLECTIONS</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 13,650	\$ 0	\$ 13,650
Investments	0	0	0
Due from other funds	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>13,650</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>13,650</u></b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities</b>			
Due to other funds	\$ 0	\$ 0	\$ 0
Due to other governmental units	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Fund Equity</b>			
Fund balance - reserved	\$ 13,035	\$ 0	\$ 13,035
Fund balance - unreserved	615	0	615
	<u>615</u>	<u>0</u>	<u>615</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>13,650</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>13,650</u></b>

Notes to Financial Statements are an integral part of this statement.

CITY OF CRYSTAL FALLS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
Year ended September 30, 2004

	<u>Perpetual Care Fund</u>
REVENUES	
Perpetual care fees	\$ 2,375
Interest income	<u>197</u>
	TOTAL REVENUES \$ 2,572
TRANSFERS - (to) other funds	\$ <u>0</u>
	EXCESS OF REVENUES OVER (UNDER) TRANSFERS \$ 2,572
Fund balance - beginning	<u>11,078</u>
	FUND BALANCE - RESTRICTED - ENDING \$ <u><u>13,650</u></u>

Notes to Financial Statements are an integral part of this statement.



CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Crystal Falls (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

**Reporting Entity**

The City is governed by an elected five member council (Council). The accompanying financial statements present the government as the City does not have any component units that are required to be presented, either discretely or blended.

**Government-Wide and Fund Financial Statements**

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Taxes Receivable—Current Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1. Taxes levied on December 1 are payable in one installment by the last day of February of the ensuing year without penalty. The City bills and collects its own property taxes and also taxes for Iron County and the Crystal Falls Community District Library. Collections and remittances of county and library taxes are accounted for in the Tax Collection Fund. City real property taxes are recognized when levied and personal property taxes are recognized when received.

The City is permitted to assess 20 mills for general governmental services according to its charter. The City actually assessed 16.50 mills generating net tax collections of \$287,572 that is recorded in the general fund.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Industrial Park Fund accounts for the receipts and expenditures associated with improvements to the designated Industrial Park as well as outstanding loan/grant activities.

The Electric Reserve and Contingency Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities in the Electric Department with a cost of not less than \$25,000.00. The City Charter requires a transfer of ten percent of the net income before transfers of the Electric Fund be made annually to the Fund but not less than \$10,000 up to maximum accumulation of \$250,000.00 unless a higher maximum accumulation is approved by the City Council.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

The government reports the following major proprietary funds:

The Television Fund accounts for the activities of the community television/internet system.

The Electric Fund accounts for the activities of the power generation and distribution system.

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's utility function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The utility funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, depreciation on capital assets and debt costs associated with financing upgrades to the utility systems. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Assets, Liabilities, and Net Assets or Equity (Continued)**

Receivables and Payables— In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets. In addition, the deposits placed on account by utility customers are also classified as restricted.

Capital Assets— Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City has elected not to report its infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) which is compliance with Governmental Accounting Standards Board Statement Number 34 as the City is a “tier three” entity. All future infrastructure asset additions will be recorded and reported in the government wide financial statements.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Assets, Liabilities, and Net Assets or Equity (Continued)**

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Television/Internet	5 to 25 years
Electric System	5 to 40 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Compensatory and Sick Leave)— It is the government's policy to permit employees to accumulate earned but unused vacation, compensatory and sick pay benefits. The City does not have a determinable liability for unpaid accumulated sick leave since the government has a policy not to pay any portion of the accumulated benefits to employees upon separation from service. All vacation and compensary leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations— In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE B - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

The City Council adopted an amendment to its budget, changing budgeted amounts to the actual expenditure balance if the initially adopted amounts lagged the expenditures. As a result, no expenditures exceeded the budgetary amounts.

NOTE C - ACCUMULATED UNRESERVED/UNDESIGNATED FUND DEFICITS

The City has does not have any funds with an accumulated unreserved/undesignated fund balance/retained earnings deficit as of September 30, 2004.

NOTE D - CASH AND EQUIVALENTS

At year end, the carrying amount of the City's deposits (checking, savings, money market and short term certificates of deposit) was \$1,926,529. The City's deposits are in accordance with statutory authority. The bank balance is classified as to credit risk as follows:

Amount insured by the F.D.I.C.	\$ 200,000
Amount uninsured and uncollateralized	<u>1,726,529</u>
TOTAL CASH	<u>\$ 1,926,529</u>

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

NOTE E - INVESTMENTS

The City adopted an investment policy pursuant to state law. The investments were held in a membership in the Upper Peninsula Power Producers Agency, LLC (UPPPA). The City has invested \$110,684 as of the September 30, 2004, and expects to receive an ongoing return of 12% per annum.

NOTE F - LONG TERM DEBT

1998 SEWER UTILITY SYSTEM REVENUE BOND

<u>Date</u>	<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>
March 1, 2005	\$ 77,468	\$ 0	77,468
September 1, 2005	122,468	45,000	77,468
March 1, 2006	76,455	0	76,455
September 1, 2006	123,455	47,000	76,455
March 1, 2007	75,398	0	75,398
September 1, 2007	124,398	49,000	75,398
March 1, 2008	74,295	0	74,295
September 1, 2008	125,295	51,000	74,295
March 1, 2009	73,148	0	73,148
September 1, 2009	126,148	53,000	73,148
2010 - 2038	<u>5,787,120</u>	<u>3,198,000</u>	<u>2,589,120</u>
	<u>\$ 6,785,645</u>	<u>\$3,443,000</u>	<u>\$ 3,342,645</u>

A Sewer System Revenue Bond was issued for \$3,673,000 dated September 23, 1998. The bond requires annual principal payments as scheduled above and bears interest at the rate of 4.5% per annum. Interest is payable semiannually on March 1 and September 1 of each year.

The Bond is subject to redemption prior to maturity at the option of the City, either in whole or in part; on any interest payment date, at par plus accrued interest.

1999 ECONOMIC DEVELOPMENT FINANCING AGREEMENT

On January 1, 1999, the City received Community Development Block Grant money in the form of a partially forgivable loan in the amount of \$232,591. These funds were disbursed as infrastructure improvements were completed and invoiced. The City pledged \$105,000 of its Certificates of Deposit and its State Shared Revenues as collateral on this loan.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

NOTE F - LONG TERM DEBT (CONTINUED)

1999 ECONOMIC DEVELOPMENT FINANCING AGREEMENT (CONTINUED)

During the year, the City requested and received the maximum offset for new jobs created per the loan terms. This amounted to forgiveness of all of the accrued interest and ninety percent of the principal. The repayment of the loan is scheduled to begin in January, 2005 with annual principal payments of \$2,584.34 plus interest at the rate of 5% per annum over a ten year period of time.

2004 ELECTRIC UTILITY SYSTEM REVENUE BOND

<u>Date</u>	<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>
May 1, 2005	\$ 27,285	\$ 0	27,285
November 1, 2005	50,464	30,000	20,464
May 1, 2006	19,939	0	19,939
November 1, 2006	49,938	30,000	19,938
May 1, 2007	19,414	0	19,414
November 1, 2007	54,414	35,000	19,414
May 1, 2008	18,758	0	18,758
November 1, 2008	53,757	35,000	18,757
May 1, 2009	18,101	0	18,101
2009 - 2024	<u>1,138,331</u>	<u>820,000</u>	<u>318,331</u>
	<u>\$ 1,450,401</u>	<u>\$ 950,000</u>	<u>\$ 500,401</u>

An Electric System Revenue Bond was issued for \$950,000 dated September 1, 2004 at a 1% discount. The bond requires annual principal payments as scheduled above and bears interest at rates varying from of 3.5% to 5.0% per annum. Interest is payable semiannually on May 1 and November 1 of each year.

The Bond is subject to redemption prior to maturity at the option of the City, either in whole or in part; on any interest payment date, at par plus accrued interest.

NOTE G - ACCUMULATED VACATION AND SICK PAY

Sick days can accumulate to a maximum of 100 days, and are forfeited upon termination. As of September 30, 2004, the accumulated sick leave liability approximates \$ 199,070. Annual leave can accumulate to a maximum of 24 days and may exceed this amount with City Council approval. Upon termination, a cash payout of the accumulated days at the employee's present hourly rate occurs. As of September 30, 2004, the estimated liability for unused vacation leave is \$ 44,943.



CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

NOTE H - INTERFUND TRANSFERS

The following interfund transfers were recorded during the year and are reflected in the financial statements.

Transfer from	Transfer to	Amount
Electric	General	\$ 215,000
Water	General	350,000
Major Streets	Local Streets	30,900
General	Recreation	2,897
Electric	Electric Reserve	29,988

NOTE I - INTERFUND RECEIVABLES/PAYABLES

As of September 30, 2004, the City had the no interfund receivables and payables.

NOTE J - PENSION PLAN

The City contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

All full-time City employees are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits range are 2.5% of final average compensation for their last five years of employment multiplied by their years of credited service.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually for beneficiaries.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability:

Retiree and beneficiaries currently receiving benefits	\$ 1,945,325
Terminated employees not yet receiving benefits	7,418
Non-vested terminated employees	0
Current employees:	
Accumulated employee contributions including allocated investment income	71,069
Employer financed	<u>3,211,696</u>
Total Actuarial Liability	\$ 5,235,508
Net assets available for benefits, at actuarial value (Market Value is \$4,699,213)	<u>5,146,395</u>
Unfunded (overfunded) actuarial accrued liability	\$ 89,113

GASB 27 INFORMATION (as of 12/31/03)

Fiscal year beginning	July 1, 2005
Annual required contributions (ARC)	\$ 87,168
Amortization factor used	0.053632

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarily determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

NOTE K - RISK MANAGEMENT

The City of Crystal Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Crystal Falls maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED  
SUPPLEMENTAL  
INFORMATION

CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
Year ended September 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 118,635	\$ 118,635	\$ 118,635	\$ 0
Resources (Inflows)				
Property taxes	296,400	296,400	290,390	(6,010)
State shared revenues and grants	279,557	279,557	250,518	(29,039)
Fines and forfeitures	1,000	1,000	5,964	4,964
Charges for services	25,500	25,500	23,856	(1,644)
Interest and rentals	39,000	39,000	134,449	95,449
Other	217,200	217,200	149,087	(68,113)
Transfer from other funds	632,718	565,000	565,000	0
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 1,610,010	\$ 1,542,292	\$ 1,537,899	\$ (4,393)
Charges to Appropriations (Outflows)				
Legislative				
City council	\$ 8,700	\$ 8,700	\$ 10,110	\$ (1,410)
Mayor	2,700	2,700	3,609	(909)
General Government				
City manager	20,100	20,100	29,864	(9,764)
Elections	4,540	4,540	4,177	363
Administration	383,135	383,135	269,675	113,460
Clerk	14,500	14,500	18,158	(3,658)
Assessor	8,400	8,400	8,904	(504)
Audit/attorney	13,600	13,600	15,394	(1,794)
Board of review	3,700	3,700	4,062	(362)
Treasurer	8,500	8,500	7,959	541
Buildings	83,800	83,800	76,812	6,988
Cemetery	59,300	59,300	54,543	4,757
Public Safety				
Police	254,400	254,400	253,138	1,262
Fire	108,000	108,000	119,877	(11,877)
Public Works				
Maintenance	324,350	324,350	237,134	87,216
Street lighting	35,000	35,000	40,546	(5,546)
Parks and Recreation				
Parks	24,400	24,400	23,106	1,294
Softball field	200	200	240	(40)
Golf course	81,200	81,200	108,418	(27,218)
Ski hill	20,250	20,250	6,452	13,798
Community betterment				
Downtown development	5,300	5,300	532	4,768
Other	23,300	23,300	32,428	(9,128)
Transfers to other funds	0	0	2,897	(2,897)
TOTAL CHARGES TO APPROPRIATIONS	\$ 1,487,375	\$ 1,487,375	\$ 1,328,035	\$ 159,340
BUDGETARY FUND BALANCE--ENDING	\$ 122,635	\$ 54,917	\$ 209,864	\$ 154,947

CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
MAJOR STREET FUND  
Year ended September 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 68,940	\$ 68,940	\$ 68,940	\$ 0
Resources (Inflows)				
Federal grants	0	0	309	309
State shared revenues and grants	166,000	206,000	206,827	827
Other	0	4,400	9,448	5,048
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 234,940	\$ 279,340	\$ 285,524	\$ 6,184
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Route maintenance	106,342	32,342	31,909	433
Drainage, sweeping and flushing	4,500	14,100	14,057	43
Trees and shrubs	3,300	8,500	8,455	45
Roadside betterment	220	620	607	13
Signs and signals	110	110	26	84
Winter maintenance	22,000	58,400	58,328	72
Administration and engineering	5,018	6,318	6,275	43
Trunk line maintenance:				0
Route maintenance	2,760	2,760	1,816	944
Drainage, sweeping and flushing	2,120	6,620	6,535	85
Trees and shrubs	1,430	1,430	53	1,377
Roadside betterment	680	680	394	286
Signs and signals	220	220	106	114
Winter maintenance	17,300	47,400	47,317	83
Transfer to other funds	0	30,900	30,900	0
TOTAL CHARGES TO APPROPRIATIONS	\$ 166,000	\$ 210,400	\$ 206,778	\$ 3,622
BUDGETARY FUND BALANCE--ENDING	\$ 68,940	\$ 68,940	\$ 78,746	\$ 9,806

CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
INDUSTRIAL PARK FUND  
Year ended September 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 105,970	\$ 105,970	\$ 105,970	\$ 0
Resources (Inflows)				
Interest earned	2,000	2,000	2,047	47
Transfers from other funds	<u>4,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 111,970	\$ 107,970	\$ 108,017	\$ 47
Charges to Appropriations (Outflows)				
Site improvements	\$ 6,000	\$ 1,900	\$ 825	\$ 1,075
Administration	0	100	55	45
Transfers to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>6,000</u>	\$ <u>2,000</u>	\$ <u>880</u>	\$ <u>1,120</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>105,970</u></u>	\$ <u><u>105,970</u></u>	\$ <u><u>107,137</u></u>	\$ <u><u>1,167</u></u>

CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
ELECTRIC RESERVE AND CONTINGENCY FUND  
Year ended September 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 196,042	\$ 196,042	\$ 196,042	\$ 0
Resources (Inflows)				
Interest earned	2,500	2,500	2,428	(72)
Transfers from other funds	<u>0</u>	<u>0</u>	<u>29,988</u>	<u>29,988</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 198,542	\$ 198,542	\$ 228,458	\$ 29,916
Charges to Appropriations (Outflows)				
Capital outlay	\$ 0	\$ 0	\$ 0	\$ 0
Transfers to other funds	<u>2,500</u>	<u>2,500</u>	<u>0</u>	<u>2,500</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>2,500</u>	\$ <u>2,500</u>	\$ <u>0</u>	\$ <u>2,500</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>196,042</u></u>	\$ <u><u>196,042</u></u>	\$ <u><u>228,458</u></u>	\$ <u><u>32,416</u></u>

CITY OF CRYSTAL FALLS  
MERS PENSION FUNDING AND STATISTICS  
SEPTEMBER 30, 2004

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-01	4,986,608	4,619,078	(367,530)	108%	1,098,862	0%
31-Dec-02	4,950,071	4,997,024	46,953	99%	1,151,266	4%
31-Dec-03	5,146,395	5,235,508	89,113	98%	1,090,169	8%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-01	0	100%
31-Dec-02	0	100%
31-Dec-03	27,716	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 8.66%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 4.16%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE



ADDITIONAL  
INFORMATION

CITY OF CRYSTAL FALLS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
September 30, 2004

	<u>LOCAL STREET</u>	<u>RECREATION</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 8,857	\$ 221	\$ 9,078
Investments	0	0	0
Accounts receivable	0	0	0
Due from other funds	0	0	0
Due from other governmental units	9,179	0	9,179
Other assets	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>18,036</u></b>	<b>\$ <u>221</u></b>	<b>\$ <u>18,257</u></b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 852	\$ 221	\$ 1,073
Salaries and wages payable	0	0	0
Accrued taxes and withholdings	0	0	0
Accrued interest	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 852</b>	<b>\$ 221</b>	<b>\$ 1,073</b>
<b>FUND EQUITY</b>			
Fund balance:			
Unreserved-undesignated	\$ <u>17,184</u>	\$ <u>0</u>	\$ <u>17,184</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>18,036</u></b>	<b>\$ <u>221</u></b>	<b>\$ <u>18,257</u></b>

CITY OF CRYSTAL FALLS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE  
Year ended September 30, 2004

	<u>LOCAL STREET</u>	<u>RECREATION</u>	<u>TOTAL</u>
<b>REVENUES</b>			
State shared revenues	\$ 60,798	\$ 0	\$ 60,798
Other	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL REVENUES</b>	<b>\$ 60,798</b>	<b>\$ 0</b>	<b>\$ 60,798</b>
<b>EXPENDITURES</b>			
Construction	\$ 0	\$ 0	\$ 0
Maintenance	19,381	0	19,381
Drainage, sweeping and flushing	16,134	0	16,134
Trees and shrubs	8,835	0	8,835
Roadside betterment	3,063	0	3,063
Winter maintenance	40,096	0	40,096
Administration and engineering	5,922	0	5,922
Capital outlay	<u>0</u>	<u>2,897</u>	<u>2,897</u>
<b>TOTAL EXPENDITURES</b>	<b>\$ 93,431</b>	<b>\$ 2,897</b>	<b>\$ 96,328</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (32,633)</b>	<b>\$ (2,897)</b>	<b>\$ (35,530)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer from other funds	\$ 30,900	\$ 2,897	\$ 33,797
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES</b>	<b>\$ (1,733)</b>	<b>\$ 0</b>	<b>\$ (1,733)</b>
Fund balance - beginning	<u>18,917</u>	<u>0</u>	<u>18,917</u>
<b>FUND BALANCE - ENDING</b>	<b>\$ <u>17,184</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>17,184</u></b>

CITY OF CRYSTAL FALLS  
SEWER UTILITY FUND  
BALANCE SHEET  
September 30, 2004 and 2003

ASSETS	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash and equivalents	\$ 131,697	\$ 153,449
Accounts receivable	5,569	6,712
Due from other governmental units	<u>0</u>	<u>47,571</u>
TOTAL CURRENT ASSETS	\$ 137,266	\$ 207,732
Restricted Assets:		
Bond interest and redemption	\$ 131,495	\$ 108,990
Repair and replacement	<u>71,794</u>	<u>62,853</u>
TOTAL RESTRICTED ASSETS	\$ 203,289	\$ 171,843
Property, Plant and Equipment:		
Sewage plant, lines and vehicles	\$ 8,587,382	\$ 8,511,459
Less accumulated depreciation	<u>(1,130,766)</u>	<u>(957,379)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 7,456,616	\$ 7,554,080
TOTAL ASSETS	<u><u>\$ 7,797,171</u></u>	<u><u>\$ 7,933,655</u></u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,019	\$ 2,227
Salaries and wages payable	1,762	2,590
Due to other funds	0	15,000
Interest payable	12,911	13,073
Current portion of long term debt	<u>45,000</u>	<u>43,000</u>
TOTAL LIABILITIES	\$ 63,692	\$ 75,890
LONG TERM LIABILITIES - Bonds payable	\$ 3,398,000	\$ 3,443,000
FUND EQUITY		
Contributed capital	\$ 4,113,725	\$ 4,196,301
Retained earnings:		
Restricted	203,289	171,843
Unrestricted, undesignated	<u>18,465</u>	<u>46,621</u>
TOTAL FUND EQUITY	\$ 4,335,479	\$ 4,414,765
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 7,797,171</u></u>	<u><u>\$ 7,933,655</u></u>

CITY OF CRYSTAL FALLS  
SEWER UTILITY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
ACTUAL AND BUDGET  
Years ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Federal grant	\$ 0	\$ 47,571
User charges	343,688	347,762
Other	<u>162</u>	<u>0</u>
TOTAL OPERATING REVENUES	\$ 343,850	\$ 395,333
OPERATING EXPENSES		
General and administrative	\$ 30,253	\$ 25,482
Transmission, distribution and maintenance	70,420	142,258
Depreciation	88,909	87,010
Interest	<u>156,709</u>	<u>158,561</u>
TOTAL OPERATING EXPENSES	\$ <u>346,291</u>	\$ <u>413,311</u>
OPERATING INCOME	\$ (2,441)	\$ (17,978)
NON-OPERATING INCOME - Interest	\$ <u>5,731</u>	\$ <u>9,884</u>
NET INCOME	\$ 3,290	\$ (8,094)
Retained earnings - Beginning of period	<u>218,464</u>	<u>226,558</u>
RETAINED EARNINGS - END OF PERIOD	<u>\$ 221,754</u>	<u>\$ 218,464</u>

CITY OF CRYSTAL FALLS  
STATEMENT OF CASH FLOWS  
SEWER UTILITY FUND  
Year ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 344,993	\$ 346,669
Payments to suppliers	(180,206)	(267,227)
Payments to or on behalf of employees	<u>(76,374)</u>	<u>(66,425)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 88,413	\$ 13,017
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer (to) other funds	\$ 0	\$ 0
Loans received from (repaid to) other funds	<u>(15,000)</u>	<u>15,000</u>
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ (15,000)	\$ 15,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	\$ (75,923)	\$ (244,536)
Principal payments on capital debt	(43,000)	(41,000)
Federal grant proceeds	49,473	175,000
Funding of restricted accounts	<u>(31,446)</u>	<u>(32,130)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (100,896)	\$ (142,666)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ <u>5,731</u>	\$ <u>9,884</u>
NET INCREASE (DECREASE) IN CASH	\$ (21,752)	\$ (104,765)
Cash and equivalents - beginning	<u>153,449</u>	<u>258,214</u>
CASH AND EQUIVALENTS - ENDING	<u>\$ 131,697</u>	<u>\$ 153,449</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ (2,441)	\$ (17,978)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	88,909	87,010
Change in Assets and Liabilities		
Receivables - net	1,143	(1,093)
Due from other governmental units	0	(47,571)
Accounts payable	1,792	(7,832)
Accrued salaries and wages	(828)	634
Interest payable	<u>(162)</u>	<u>(153)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 88,413</u>	<u>\$ 13,017</u>

CITY OF CRYSTAL FALLS  
SEWER UTILITY FUND  
 SCHEDULE OF OPERATING EXPENSES  
 Year ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
General and Administrative:		
Salaries and wages	\$ 19,490	\$ 17,546
Employee benefits	9,883	7,276
Other	<u>880</u>	<u>660</u>
Total General and Administrative	\$ 30,253	\$ 25,482
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 30,650	\$ 29,876
Employee benefits	15,523	12,361
Supplies and other	<u>24,247</u>	<u>100,021</u>
Total Transmission, Distribution & Maintenance	\$ 70,420	\$ 142,258
Depreciation	88,909	87,010
Interest	<u>156,709</u>	<u>158,561</u>
Total Operating Expenses	\$ <u><u>346,291</u></u>	\$ <u><u>413,311</u></u>

CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
LOCAL STREET FUND  
Year ended September 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 18,917	\$ 18,917	\$ 18,917	\$ 0
Resources (Inflows)				
State shared revenues and grants	50,000	60,000	60,798	798
Transfer from other funds	<u>0</u>	<u>30,900</u>	<u>30,900</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 68,917	\$ 109,817	\$ 110,615	\$ 798
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Route maintenance	26,300	19,400	19,381	19
Drainage, sweeping and flushing	3,800	16,200	16,134	66
Trees and shrubs	2,200	9,200	8,835	365
Roadside betterment	900	3,100	3,063	37
Winter maintenance	13,200	40,100	40,096	4
Administration and engineering	3,600	6,000	5,922	78
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>50,000</u>	\$ <u>94,000</u>	\$ <u>93,431</u>	\$ <u>569</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>18,917</u></u>	\$ <u><u>15,817</u></u>	\$ <u><u>17,184</u></u>	\$ <u><u>1,367</u></u>



CITY OF CRYSTAL FALLS  
BUDGETARY COMPARISON SCHEDULE  
RECREATION FUND  
Year ended September 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0
Resources (Inflows)				
State shared revenues and grants	0	0	0	0
Transfer from other funds	<u>0</u>	<u>2,897</u>	<u>2,897</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 0	\$ 2,897	\$ 2,897	\$ 0
Charges to Appropriations (Outflows)				
Capital outlay - Riverwalk	\$ 0	\$ 2,897	\$ 2,897	\$ 0
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>0</u>	\$ <u>2,897</u>	\$ <u>2,897</u>	\$ <u>0</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>

# SCOTT R. KENNEY

*Certified Public Accountant*

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INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and Council  
City of Crystal Falls  
Crystal Falls, MI 49920

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crystal Falls, Michigan (City) as of and for the year ended September 30, 2004, which collectively comprise the City of Crystal Falls, Michigan's basic financial statements and have issued my report thereon dated December 3, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned

functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated December 3, 2004.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

  
Certified Public Accountant

December 3, 2004

# SCOTT R. KENNEY

*Certified Public Accountant*

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City Council  
City of Crystal Falls  
401 Superior Avenue  
Crystal Falls, MI 49920

In conjunction with the audit of the financial statements of the City of Crystal Falls, Michigan, as of and for the year ended September 30, 2004, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City Council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. The first comment is repeated from the prior audit period.

1. **OBSERVATION** - The City has developed a very effective equipment rental tracking system and the system is being effectively maintained for the street funds. The City, however, is not recording these charges to the various utility funds.

**RECOMMENDATION** - I recommend that the City begin tracking equipment rentals to the utility funds in addition to the street funds. Additionally, the charges to each of the funds should be recorded not less than quarterly in the financial records of the City.

2. **OBSERVATION** - The City finalized the Industrial Park Loan at slightly less than \$30,000 with the vast majority of the original loan and the accrued interest being forgiven. The loan carries interest at the rate of 5% per annum.

**RECOMMENDATION** - I recommend that since the City is earning interest at an interest rate of much less than 5%, that the City pay off the principal of this loan with a portion of its invested money as soon as possible.

3. **OBSERVATION** - The allocation of time used to determine administrative payroll were not reviewed during the past year. These amounts need to be reviewed periodically to properly allocate costs to the proper funds and activities of the City.

**RECOMMENDATION** - I recommend that the administrative time allocations be reviewed at least semi-annually and the appropriate adjustments made. Upon bringing this oversight to management's attention, allocations were updated for future payrolls.

4. **OBSERVATION** - In making inquiries of internal control systems as part of the audit, three specific situations came to my attention that require review and, if cost beneficial, to be corrected.

- A. City vehicles are being utilized to travel from the City Hall to employee's homes during lunch breaks where the vehicle is not being used by that employee after the lunch break.
- B. Approximately \$1,500 of Drug Forfeiture Money was on hand in the Police Department without the knowledge of the City Treasurer or other administrative employees or the amounts being properly recorded on the City's financial records.
- C. Small supplies are being sold primarily at the Golf Course and Park without a reconciliation of those supplies occurring. This includes candy, golf balls, etc.

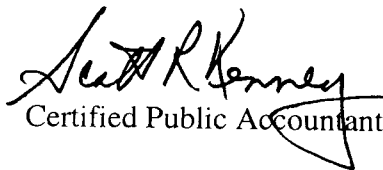
**RECOMMENDATION** - I recommend the following pertaining to each of the items listed above.

- A. Personal use of City vehicles be prohibited by employees not on City business.
- B. Drug Forfeiture Money is required to be reported by the Police Chief to the State of Michigan. Further, the Police Chief is required to account for the funds and expenditures of those funds.

I recommend that all of the departments be reminded that all money paid to the City for any reason be forwarded to the City Treasurer for receipting. Further, that all necessary expenditures be handled by the Treasurer. Any required reporting by the departments should be facilitated by communication between the Treasurer and the department head.

- C. A review should be made of the systems in place presently and cost beneficial updates to the systems should be made.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank Chuck, Dorothea, Mark and the Department Heads for their assistance during the audit.

  
Certified Public Accountant

December 3, 2004